

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

APPLICATION OF U.S. 60 WATER DISTRICT )	
OF SHELBY AND FRANKLIN COUNTIES FOR AN )	
ORDER AUTHORIZING ADJUSTMENT OF RATES )	CASE NO. 8044
AND CHARGES. )	

O R D E R

On November 21, 1980, U. S. 60 Water District of Shelby and Franklin Counties ("District") filed its application with this Commission seeking authority to increase its water rates. The proposed rates would increase annual revenues by \$43,473 over test-year revenues, an increase of 46%.

The matter was scheduled for hearing at the Commission's offices in Frankfort, Kentucky, on February 24, 1981. All parties of interest were notified and the Division of Consumer Intervention of the Attorney General's Office was the only party formally intervening herein, although a consumer of the District appeared at the hearing and made a statement in opposition to the proposed increase.

After the hearing, additional information was requested. This information has been furnished and the entire matter was submitted for final determination by this Commission.

COMMENTARY

U. S. 60 Water District of Shelby and Franklin Counties is a non-profit water distribution system organized and existing under the laws of the Commonwealth of Kentucky. The District presently

serves approximately 500 customers in Shelby and Franklin Counties, Kentucky.

#### TEST PERIOD

The twelve-month period ending August 31, 1980, has been used as the test year for the purpose of determining the reasonableness of the rates and charges proposed herein. Pro forma adjustments have been included where found reasonable and proper for rate-making purposes.

#### REVENUES AND EXPENSES

The District proposed several pro forma adjustments to revenues and expenses as reflected on its comparative income statement. These pro forma adjustments reflected increases in operating expenses and interest on long term debt. The District has also included as a pro forma adjustment, the principal payments in arrears on its water revenue bonds.

The Commission has accepted the pro forma adjustment of \$1,545 to reflect the increased cost of meter reading as a result of its new contract for meter reading service.

The Commission has disallowed the proposed pro forma adjustments for power for pumping, operating supplies, maintenance expenses, uncollectible accounts, and office supplies in as much as these adjustments were based solely on estimated increases in cost which are not sufficiently known and measurable.

The Commission has also made the following adjustments to the test year operating expenses:

1. The District proposed a pro forma adjustment of its purchased water cost of \$1,788 to reflect an eight percent increase in cost of water from its wholesale water supplier. The Commission concurs with this adjustment to reflect the increased cost; however, during the test year, the District's line loss was approximately 40%. It is the policy of the Commission, relative to the gallons of water purchased and sold, to allow a line loss not to exceed 15% for rate-making purposes. Therefore, the cost of purchased water has been reduced by \$5,359 to \$17,153.

2. During the test year, the District paid \$4,800 for the manager's salary. The District now has a new contract with the manager at a salary of \$12,000 per year which will result in an increase of \$7,200.

3. The District proposed an adjustment for rate case expenses of \$2,500. Based on additional information supplied by the District, it has incurred expenses of \$4,649 in connection with this rate application. We are of the opinion that this amount should be amortized over a period of three years. Therefore, we have reduced the proposed adjustment to \$1,550 for rate-making purposes.

4. The \$1,500 expense labeled "Administration Fees and Expenses" was paid to the meter readers during the test year for bookkeeping service and transmitting information to the accountant for billing. In the future, this service will be performed by the North Shelby Water Company for a fee of \$1,800 per year which will result in an increase of \$300.

5. Based on information supplied by the District, the cost of property and liability insurance will be \$120 and \$196 per year,

respectively. Therefore, we have reduced the test year expense by \$436.

6. The Commission has reduced the District's test year depreciation expense by \$2,208 to exclude depreciation on contributed property for rate-making purposes. The records herein reflect that contributions in aid of construction from customers amounted to \$78,993 or approximately 18% of the total cost of water plant in service. It is the policy of the Commission that the District, through its water rates, will generate revenues sufficient to recover all costs in providing service to its customers. However, it is not the Commission's policy that the District charge its customers for costs it has not incurred, as would be the case if the District were allowed to charge its customers for depreciation on contributed property.

The Commission has made the following adjustment to the test year operating revenue:

During the test year, the District received forfeited discounts in the amount of \$7,007. The District proposed to reduce this income to \$2,000 based on prior year's experience. The Commission has adjusted the amount to \$4,828 to reflect the average revenue from forfeited discounts for the calendar years 1979 and 1980.

The Commission has reduced interest expense by \$4,475 to reflect the annualized interest expense based on the long-term debt outstanding at the end of the test year. The District's pro forma adjustment for

principal payments in arrears on bonds has been disallowed in as much as these payments are not properly classified as operating expense.

Based on the aforesaid adjustments, the District's operating statement would appear as follows:

	<u>Actual 8/31/80</u>	<u>Pro Forma Adjustments</u>	<u>Adjusted Test Year</u>
Operating Revenues	\$ 102,172	\$ (2,179)	\$ 99,993
Operating Expenses	72,829	2,592	75,421
Net Operating Income	\$ 29,343	\$ (4,771)	\$ 24,572
Other Deductions	21,590	(4,475)	17,115
Net Income	<u>\$ 7,753</u>	<u>\$ ( 296)</u>	<u>\$ 7,457</u>

The net income for the test year was \$7,753. After taking into consideration the pro forma adjustments, the adjusted net income would be reduced to \$7,457.

The Commission is of the opinion that a debt service coverage of 1.2 will be adequate to allow the District to pay its operating expenses, meet its debt service requirements, and provide a reasonable surplus. In order to achieve this debt service coverage, the District's operating revenues should be increased to \$102,248 which will require additional revenues of \$2,255.

#### SUMMARY

The Commission, after consideration of the evidence of record and being fully advised, is of the opinion and finds that the rates proposed by U. S. 60 Water District of Shelby and Franklin Counties would produce revenues in excess of those found to be reasonable herein, and therefore, must be denied upon application of KRS 278.030. The Commission finds further that the rates set out in Appendix A

attached hereto are the fair, just and reasonable rates for service rendered by the District on and after the date of this Order. These rates will produce annual revenues based on test year sales of approximately \$97,420 and after the addition of \$4,828 of other operating revenues, will provide total annual operating revenues of \$102,248.

IT IS THEREFORE ORDERED that the rates proposed by U. S. 60 Water District of Shelby and Franklin Counties are hereby denied.

IT IS FURTHER ORDERED that the rates set out in Appendix A attached hereto and made a part hereof are approved for service rendered by U. S. 60 Water District of Shelby and Franklin Counties on and after the date of this Order.

IT IS FURTHER ORDERED that the U. S. 60 Water District of Shelby and Franklin Counties shall file with this Commission, within 30 days from the date of this Order, its revised tariff sheets setting forth the rates approved herein. Further, that a copy of the District's regulations for providing service shall be filed with the said tariff sheets.

Done at Frankfort, Kentucky, this 17th day of June, 1981.

PUBLIC SERVICE COMMISSION

Marlin M. Voth  
Chairman

Katherine Randall  
Vice Chairman

Jim Harman  
Commissioner

ATTEST:

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Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC  
SERVICE COMMISSION IN CASE NO. 8044  
DATED JUNE 17, 1981.

The following rates are prescribed for all customers served by U.S. 60 Water District. All other rates and charges not specifically mentioned herein shall remain the same as those in effect prior to the date of this Order.

Rates: Monthly

First	1,000 gallons	\$ 6.75 Minimum Bill
Next	2,000 gallons	3.05 Minimum Bill
Next	2,000 gallons	2.30 Minimum Bill
Over	5,000 gallons	1.95 Minimum Bill